

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--|----------------------------------|--|-----------------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Unit Name Clare County Transit Corporation | County Clare |
| Fiscal Year End September 30, 2006 | Opinion Date October 27, 2006 | Date Audit Report Submitted to State January 30, 2007 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

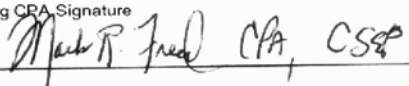
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Z

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | |
|--|-------------------------------------|--|-------------|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | |
| Financial Statements | <input checked="" type="checkbox"/> | | |
| The letter of Comments and Recommendations | <input checked="" type="checkbox"/> | | |
| Other (Describe) | <input type="checkbox"/> | | |
| Certified Public Accountant (Firm Name) Burnside & Lang, P.C. | | Telephone Number (989) 835-7721 | |
| Street Address 5915 Eastman Ave, Suite 100 | | City Midland | State MI |
| Zip 48640 | | | |
| Authorizing CPA Signature  | Printed Name Mark Freed | License Number 1101012221 | |

CLARE COUNTY TRANSIT CORPORATION

AUDITED FINANCIAL STATEMENTS

September 30, 2006

CLARE COUNTY TRANSIT CORPORATION

AUDITED FINANCIAL STATEMENTS SEPTEMBER 30, 2006

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| FINANCIAL SECTION: | |
| INDEPENDENT AUDITORS' REPORT | 1-2 |
| REQUIRED SUPPLEMENTARY INFORMATION: | |
| Management's Discussion and Analysis | 3-5 |
| BASIC FINANCIAL STATEMENTS: | |
| <u>Exhibits</u> | |
| A Statement of Net Assets | 6 |
| B Statement of Revenue, Expenses and Changes in Net Assets | 7 |
| C Statement of Cash Flows | 8-9 |
| D Notes to Financial Statements | 10-17 |
| ADDITIONAL INFORMATION: | |
| <u>Schedules</u> | |
| 1 Schedule of Operating Revenues | 18 |
| 2 Schedule of Operating Expenses | 19 |
| 3A Schedule of Non-Operating Revenue - Local | 20 |
| 3B Schedule of Non-Operating Revenue - State and Federal | 21 |
| 3C Schedule of Capital Grants - State and Federal | 22 |
| 4 Schedule of Net Eligible Costs Computations | 23 |
| 5 Schedule of Mileage Data - Unaudited | 24 |
| REPORTS REQUIRED BY GOVERNMENT AUDITING STANDARDS: | |
| Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 25 |

CLARE COUNTY TRANSIT CORPORATION

BOARD OF DIRECTORS

Sandra Westphal
President

Craig Tyer
Vice President

Dennis Zyskowski
Secretary/Treasurer

Maye Tessner
Director

Karen Lipovsky
Director

Lamar Gunden
Director

Lisa Miller
Director

COUNTY POPULATION–2000
31,252

STATE EQUALIZED VALUE–2005
\$1,341,708,590

STATE TAXABLE VALUE–2005
\$866,696,112

INDEPENDENT AUDITORS' REPORT

Board of Directors
Clare County Transit Corporation
4175 North Clare Avenue
Clare, Michigan 48624

Dear Board Members:

We have audited the accompanying financial statements of the business-type activities of the Clare County Transit Corporation, a blended component unit of Clare County, Michigan, as of and for the year ended September 30, 2006, as listed in the Table of Contents. These financial statements are the responsibility of the Clare County Transit Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Clare County Transit Corporation as of September 30, 2006, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis information on pages 3 through 5, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2006 on our consideration of the Clare County Transit Corporation's internal control over financial reporting and our tests of its compliance with certain provisions, laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements of the Clare County Transit Corporation. The schedules of additional information listed in the table of contents as Schedules 1 through 4 are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and Schedule 5 marked "unaudited" have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Burnside & Zoug, P.C.

Midland, Michigan
October 27, 2006

**CLARE COUNTY TRANSIT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended September 30, 2006**

Using This Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets, the Statement of Revenue, Expenses and Changes in Net Assets, and the Statement of Cash Flows provide information about the activities of the Transit as a whole and present a longer-term view of the Transit's finances.

Clare County Transit Corporation's mission is to improve mobility and the quality of life for all people in Clare County by providing efficient and responsive transportation. This financial report is intended to provide our citizens, taxpayers and customers with a general overview of the Transit's finances and show its accountability for the money it receives.

The Transit As A Whole

The Transit's net assets decreased by 6.1% from a year ago from \$2,484,714 to \$2,329,112. The Transit has net assets invested in capital assets of \$1,334,704.

The following table shows the total net assets (in thousands of dollars) as of the current year in comparison to the prior year.

| | <u>2006</u> | <u>2005</u> |
|----------------------------|--------------------------|--------------------------|
| Current Assets | \$ 971.1 | \$ 777.5 |
| Noncurrent Assets | <u>1,459.7</u> | <u>1,787.5</u> |
| Total Assets | <u>2,430.8</u> | <u>2,565.0</u> |
| Liabilities | <u>(101.7)</u> | <u>(80.3)</u> |
| Net Assets | | |
| Invested in Capital Assets | 1,334.7 | 1,662.4 |
| Unrestricted | <u>994.4</u> | <u>822.3</u> |
| Total Net Assets | <u><u>\$ 2,329.1</u></u> | <u><u>\$ 2,484.7</u></u> |

**CLARE COUNTY TRANSIT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended September 30, 2006**

The Transit As A Whole (Continued)

Unrestricted net assets, are the part of net assets that can be used to finance day to day operations, increased by \$172,116. The current level of unrestricted net assets for the Transit stands at \$994,408, or about 67% of expenses. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Transit is improving or deteriorating.

The following table shows the changes of the net assets (in thousands of dollars) as of the current date in comparison to the prior year:

| | <u>2006</u> | <u>2005</u> |
|------------------------|-------------------|-----------------|
| Revenues | | |
| Charges for services | \$ 328.7 | \$ 315.5 |
| Property and SBT taxes | 256.8 | 210.8 |
| Other local revenue | 39.5 | 15.0 |
| Operating grants | 668.0 | 583.1 |
| Capital grants | 27.1 | 878.7 |
| Total Revenues | <u>1,320.1</u> | <u>2,003.1</u> |
| Expenses | | |
| Wages and benefits | 766.3 | 774.5 |
| Materials and supplies | 218.6 | 215.9 |
| Insurance | 74.3 | 67.6 |
| Depreciation | 341.0 | 273.4 |
| Other | 75.7 | 75.3 |
| Total Expenses | <u>1,475.9</u> | <u>1,406.7</u> |
| Change in Net Assets | <u>\$ (155.8)</u> | <u>\$ 596.4</u> |

The Transit's net assets continue to remain healthy despite total revenues declining 34% and expenses increasing by 4.9% over the previous year. As a result net assets decreased by \$155,802 this year compared to an increase of \$596,355 last year.

**CLARE COUNTY TRANSIT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended September 30, 2006**

Transit Activities

The Transit had a slight decrease in rider-ship for the year by 2,905 less rides, however revenue still increased by \$13,267. Passenger fares were increased to cover the rising fuel cost. Property tax revenue increased because the 2005 taxable value of properties in Clare County increased by 6.14% to \$866,696,112. The 2006 taxable value has increased to \$922,165,384 or 6.4%. The County levied .2974 mills for the 2005 tax year. Operating grants, however, continued to decline over the previous year because of the State's continued phase out of the Project Zero program, which was the Governor's program to have all citizens transported to work.

Total costs of operating the Transit increased \$69,280 or 4.2% over the previous year. Wages and benefit costs increased \$8,203 or 1.1%, while materials and supplies increased \$2,679 or 1.2%.

Contacting the Transit's Management

This financial report is intended to provide our citizens, customers, funding agencies and creditors with a general overview of the Transit's finances. If you have questions about this report or need additional information, please contact the General Manager, at 4175 North Clare Avenue, Harrison, Michigan 48625.

CLARE COUNTY TRANSIT CORPORATION
STATEMENT OF NET ASSETS
September 30, 2006

EXHIBIT A

ASSETS

| | |
|--|-------------------------|
| Cash and cash equivalents | \$ 13,100 |
| Investments | 910,444 |
| Accounts receivable | 19,600 |
| Due from State Government (Note F) | 582 |
| Due from Federal Government (Note F) | 11,083 |
| Prepaid insurance (Note J) | 141,410 |
| Capital assets, less accumulated depreciation of \$1,768,582 (Note D) | <u>1,334,704</u> |
| Total Assets | <u>2,430,923</u> |

LIABILITIES

| | |
|--|-----------------------|
| Accounts payable | 24,476 |
| Accrued wages and payroll withholdings | 12,510 |
| Accrued compensated absences | 21,047 |
| Other accrued liabilities | 20,769 |
| Due to other government units | <u>23,009</u> |
| Total Liabilities | <u>101,811</u> |

NET ASSETS

| | |
|----------------------------|----------------------------|
| Invested in capital assets | 1,334,704 |
| Unrestricted | <u>994,408</u> |
| Total Net Assets | <u>\$ 2,329,112</u> |

See accompanying notes to financial statements.

CLARE COUNTY TRANSIT CORPORATION
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
For the Year Ended September 30, 2006

EXHIBIT B

OPERATING REVENUES

| | | |
|--------------|----|---------|
| (Schedule 1) | \$ | 328,758 |
|--------------|----|---------|

OPERATING EXPENSES

| | | |
|--------------|--|-----------|
| (Schedule 2) | | 1,475,960 |
|--------------|--|-----------|

| | | |
|------------------------------------|--|--------------------|
| Net Operating Income (Loss) | | (1,147,202) |
|------------------------------------|--|--------------------|

NON-OPERATING REVENUES

| | | |
|---------------------|--|---------|
| Local (Schedule 3A) | | 296,399 |
|---------------------|--|---------|

| | | |
|---------------------------------|--|---------|
| State and Federal (Schedule 3B) | | 668,036 |
|---------------------------------|--|---------|

| | | |
|-------------------------------------|--|----------------|
| Total Non-Operating Revenues | | 964,435 |
|-------------------------------------|--|----------------|

| | | |
|---|--|------------------|
| Income (Loss) Before Capital Contributions | | (182,767) |
|---|--|------------------|

CAPITAL CONTRIBUTIONS

| | | |
|---------------------------------|--|--------|
| State and Federal (Schedule 3C) | | 27,165 |
|---------------------------------|--|--------|

| | | |
|-----------------------------------|--|-----------|
| Increase (Decrease) in Net Assets | | (155,602) |
|-----------------------------------|--|-----------|

| | | |
|-------------------------------------|--|-----------|
| Net Assets, Beginning of the Period | | 2,484,714 |
|-------------------------------------|--|-----------|

| | | |
|--------------------------------------|-----------|------------------|
| Net Assets, End of the Period | \$ | 2,329,112 |
|--------------------------------------|-----------|------------------|

See accompanying notes to financial statements.

CLARE COUNTY TRANSIT CORPORATION
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2006

EXHIBIT C

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|--|------------|
| Cash received from customers | \$ 329,410 |
| Cash payments to employees for services and benefits | (807,693) |
| Cash payments to suppliers for goods and services | (345,024) |

| | |
|---|-------------------------|
| Net Cash Provided (Used) by Operating Activities | <u>(823,307)</u> |
|---|-------------------------|

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

| | |
|----------------|---------|
| Other Income | 9,630 |
| State Grants | 498,963 |
| Federal Grants | 203,587 |
| Property Taxes | 279,856 |

| | |
|---|-----------------------|
| Net Cash Provided (Used) by Non-Capital Financing Activities | <u>992,036</u> |
|---|-----------------------|

**CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES**

| | |
|--|----------|
| Capital Assistance Grants | 27,165 |
| Acquisition and Construction of Fixed Assets | (27,165) |
| Sale of Fixed Assets | 13,326 |

| | |
|---|----------------------|
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>13,326</u> |
|---|----------------------|

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|-------------------------|-----------|
| Interest Income | 31,649 |
| Purchase of Investments | (210,741) |

| | |
|---|-------------------------|
| Net Cash Provided (Used) by Investing Activities | <u>(179,092)</u> |
|---|-------------------------|

| | |
|---|--------------|
| Net Increase (Decrease) in Cash and Cash Equivalents | 2,963 |
|---|--------------|

| | |
|--|---------------|
| Cash and Cash Equivalents, Beginning of the Period | <u>10,137</u> |
|--|---------------|

| | |
|---|--------------------------------|
| Cash and Cash Equivalents, End of the Period | <u><u>\$ 13,100</u></u> |
|---|--------------------------------|

See accompanying notes to financial statements.

CLARE COUNTY TRANSIT CORPORATION
STATEMENT OF CASH FLOWS (CONTINUED)
For the Year Ended September 30, 2006

EXHIBIT C (Cont)

**RECONCILIATION OF OPERATING INCOME TO
NET CASH PROVIDED BY OPERATING ACTIVITIES**

| | |
|--|---------------------------------------|
| Operating Income (Loss) | \$ (1,147,202) |
| Adjustments to Reconcile Net Loss to Net Cash Provided By (Used For) Operating Activities | |
| Depreciation Expense | 341,049 |
| Change in Assets and Liabilities: | |
| Accounts Receivable | 652 |
| Prepaid Insurance | (16,341) |
| Accounts Payable | 10,879 |
| Accrued Wages Payable | 138 |
| Accrued Compensated Absences | (902) |
| Other Accrued Liabilities | <u>(11,580)</u> |
| Net Cash Provided (Used) by Operating Activities | <u><u>\$ (823,307)</u></u> |

See accompanying notes to financial statements.

CLARE COUNTY TRANSIT CORPORATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE A--REPORTING ENTITY

The Clare County Transit Corporation (the "Transit Corporation") was incorporated on September 1, 1981 in the State of Michigan, under the provisions of Public Act 327 of 1931, as amended, and Public Act 284 of 1972, as amended. The Transit Corporation is not a legally separate, but is administered by a 5 to 12 member board elected by a majority of the seated board members present and voting. The Transit Corporation may not issue debt and the tax levy is subject to Clare County Board of Commissioners' approval. The transit taxes are levied under the taxing authority of Clare County total tax levy and are reported in the Public Transit Corporation Fund. The fiscal year of the Transit Corporation is October 1 through September 30.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based on the above criteria, these financial statements present the Clare County Transit Corporation, a blended component unit of Clare County.

The Transit Operating Fund is used to control the expenses for Michigan Transportation Fund monies distributed to the county, which are earmarked by law for transportation services. The Clare County Transit Corporation Board of Directors is responsible for the administration of the Transit Operating Fund.

The purpose of the Transit Corporation is to provide transportation service for the people of Clare County, particularly the elderly and handicapped, coordinated through a central dispatch center using a combination of demand-response and reserved trips.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Clare County Transit Corporation conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies.

Basis of Presentation

The following activity of the Transit is recorded in a separate fund categorized as follows:

CLARE COUNTY TRANSIT CORPORATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Enterprise Fund

This fund accounts for operations: (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus/Basis of Accounting

The Transit Corporation's funds are accounted for on a cost-of-service or "capital maintenance" measurement focus using the accrual basis of accounting. The accrual basis provides that revenues are recorded when earned and expenses are recorded when the related liability is incurred. The Transit Corporation applies all GASB pronouncements as well as the FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Fixed Assets and Depreciation

Fixed assets are stated at historical cost. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments, when significant in amounts, are capitalized. Provisions for depreciation of equipment are computed on the straight-line method. Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follow:

| | |
|--------------------|----------------|
| Operating Facility | 12 to 20 years |
| Vehicles | 3 to 7 years |
| Shop Equipment | 3 to 10 years |
| Office Equipment | 6 to 10 years |

Property Tax Revenues

The county property taxes are levied on each December 1st on the taxable value of property located in the county as of the preceding December 31st.

The county's 2005 ad valorem tax was levied and collectable on December 1, 2005. It is the Transit Corporation's policy to recognize revenues from the current tax levy in the Transit Corporation's 2005/2006 fiscal year when the proceeds of this levy are budgeted and made available for the financing of the Transit Corporation's operations.

CLARE COUNTY TRANSIT CORPORATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The 2005 taxable value of Clare County amounted to \$866,696,112 on which ad valorem taxes of .2974 mills were levied for County Transit Fund operating purposes.

Cash, Cash Equivalents and Investments

For the purpose of the statements of net assets and cash flows, demand deposits and short-term investments with a maturity of three months or less when acquired are considered to be cash equivalents. Investments are stated at fair value based on quoted market prices.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of the following: assets and liabilities; disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Compensated Paid Time Off

The liability for vested paid time off is charged to expense with a corresponding liability. Effective October 1, 1997, all full-time and regular part-time drivers and dispatchers, mechanics, clerical and janitorial employees of the Clare County Transit Corporation earn paid time off (PTO).

For straight time worked, including paid leave but not overtime, paid time off is credited based upon a varying scale as defined in the collective bargaining agreement. This scale shows 1 hour of time off for each 20 hours worked for employees with 0 time through 4 years of service. It increases with years of service to a maximum of 1 hour of time off for each 15 hours worked for employees with 10 years of service. An employee may accumulate up to 320 hours of paid time off.

Upon termination, other than discharge for cause, after 1 year of service due to resignation with 2 weeks' notice, death, retirement or layoff, an employee shall be paid for all paid time off (PTO) time accrued through the date of termination.

Administrative employees, including the manager and operations supervisor, earn paid days off (PTO) in a similar manner to the covered employees. These employees earn 2.31 hours of paid time off for each week for 0 years of service to 4.62 hours of paid time off for each week for 12 years of service. They may not accumulate hours in excess of two times their annual accumulation rate.

CLARE COUNTY TRANSIT CORPORATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Paid time off in excess of two times the annual accrual rate will be paid to the employee at Clare County Transit Corporation's fiscal year end at the employees' current rate of pay.

Administrative employees who leave their employment for any reason other than termination, and who give a minimum of 4 weeks notice are entitled to a payout for all remaining paid time off hours. Administrative employees may also elect to receive payment of paid time off instead of accumulation.

NOTE C--CASH, CASH EQUIVALENTS AND INVESTMENTS

Deposits are carried at cost. Deposits of the Transit Corporation are at one bank in the name of the Clare County Treasurer. Michigan Compiled Laws, Section 129.91 et al., authorizes the Transit Corporation to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States; United States government of Federal agency obligation repurchase agreements; bankers' acceptance of United States banks, commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

At year end, the Transit's deposits and investments were reported in the basic financial statements in the following categories:

| <u>Cash & Investments</u> | <u>Carrying Amount</u> | <u>Market Value and Bank Balance</u> | <u>Moody's Rating</u> | <u>Weighted Average Maturity</u> |
|-------------------------------|----------------------------|--|---------------------------|--|
| Imprest | \$ 100 | \$ - | | |
| Cash in Checking | 13,000 | 33,086 | | |
| Subtotal | 13,100 | 33,086 | | |
| Pooled Fund – County Held: | | | | |
| Checking (Sweep Acct) | 50,262 | 50,262 | | |
| Certificate of Deposit | 209,182 | 209,182 | | |
| Municipal Investment Fund | 651,000 | 651,000 | Not Rated | <90 days |
| Total Investment | 910,444 | 910,444 | | |
| Total Cash and Investments | \$ 923,544 | \$ 943,530 | | |

CLARE COUNTY TRANSIT CORPORATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE C--CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)

Investment and Deposit Risk

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Clare County Transit's deposits may not be returned. At year end, the transit had \$723,444 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The transit believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Clare County Transit will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At year end, the transit had no investment activity.

Interest Rate Risk. Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. State law limits the allowable investments and the maturities of some of the allowable investments. The transit's normal practice is to invest in only certificates of deposit, and have no potential interest rate risk.

NOTE 4. CAPITAL ASSETS

| | Beginning Balance | Increases | Decreases | Ending Balance |
|-----------------------------------|------------------------------|---------------------|------------------|---------------------------|
| Capital Assets Being Depreciated | | | | |
| Operating Facility | 735,019 | 24,991 | - | 760,010 |
| Vehicles | 2,410,200 | 21 | 243,913 | 2,166,308 |
| Shop Equipment | 75,293 | - | - | 75,293 |
| Office Furniture and Equipment | 99,522 | 2,153 | - | 101,675 |
| Subtotal | 3,320,034 | 27,165 | 243,913 | 3,103,286 |
| Less Accumulated Depreciation for | | | | |
| Operating Facility | 385,865 | 43,410 | - | 429,275 |
| Vehicles | 1,143,437 | 285,738 | 230,079 | 1,199,096 |
| Shop Equipment | 49,870 | 6,562 | - | 56,432 |
| Office Furniture and Equipment | 78,440 | 5,339 | - | 83,779 |
| Subtotal | 1,657,612 | 341,049 | 230,079 | 1,768,582 |
| Assets–Net of Depreciation | \$ 1,662,422 | \$ (313,884) | \$ 13,834 | \$ 1,334,704 |

Depreciation expense for the year was \$341,049.

CLARE COUNTY TRANSIT CORPORATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE E--PENSION PLANS

The Transit Corporation provides the following pension plans for its employees:

Profit Sharing Plan and Trust 401(k)

The Transit Corporation provides benefits to all union employees through a defined contribution plan named the Clare County Transit Corporation 401(k) Profit Sharing Plan and Trust, effective April 1, 1999. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. At September 30, 2006, there were six plan members. Employees may at their option, defer up to 10% of their gross income. The Transit Corporation will match the employee's contribution at the rate of 1/4 of the employee's contribution, up to a maximum of 1% of the employee's total compensation. In accordance with these provisions, the Transit Corporation contributed \$900 during the current fiscal year and employees contributed \$3,867. Plan provisions and contribution requirements are established and may be amended by the Clare County Transit Corporation Board.

SIMPLE Section 408(p)

The Transit Corporation provides pension benefits to all non-union employees through a defined contribution plan named Paine Webber Incorporated Savings Incentive Match Plan (the "SIMPLE"), effective February 18, 1999. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. At September 30, 2006, there were four plan members. The Transit Corporation contributes 3% of employees' gross earnings and employees may contribute up to \$2,000 per calendar year. In accordance with these provisions, the Transit Corporation contributed \$3,961 during the current fiscal year and employees contributed \$5,150. Plan provisions and contribution requirements are established and may be amended by the Clare County Transit Corporation Board of Directors.

CLARE COUNTY TRANSIT CORPORATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE F--DUE FROM OTHER GOVERNMENTAL UNITS

The following amounts were due from the State of Michigan at September 30, 2006:

| | |
|-----------------------------|----------------------|
| Capital Assistance Grants | <u>582</u> |
| Total Due from State | <u>\$ 582</u> |

The following amounts were due from the Federal Government at September 30, 2006:

| | |
|--|-------------------------|
| Federal Funds Section 18 - RTAP | \$ 1,375 |
| Capital Assistance Grants | <u>9,708</u> |
| Total Due from Federal Government | <u>\$ 11,083</u> |

NOTE G--RISK MANAGEMENT

The Transit Corporation is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Transit Corporation purchases commercial insurance for business auto repairs, commercial general liability, commercial inland marine (radio and TV), commercial property (building and contents), computerized business equipment, workers' compensation and medical benefit claims. The Transit Corporation participates in the Michigan Transit Pool for claims relating to auto and general liability. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past 4 fiscal years.

The Michigan Transit Insurance Pool (Pool) was created pursuant to the provisions of MCL 124.1 et seq. and was incorporated under the Michigan Nonprofit Corporation Act, being MCL Sections 450.2101 et seq., as the Michigan Transit Pool, Inc. The Pool is to provide administrative loss protection programs for the members, to pool losses and claims, to jointly purchase commercial services, including claims adjusting, data processing, risk management consulting, loss prevention, legal and related services. The Pool is a separate legal and administrative entity. Settled claims for the Pool have not exceeded the amounts of insurance coverage in any of the past 4 years.

CLARE COUNTY TRANSIT CORPORATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE H--CONTINGENT LIABILITIES

The Transit Corporation, in connection with the normal conduct of its affairs, is involved in various claims, judgements and litigations. The Transit Corporation's claims administrator estimates that the potential claims against the Transit Corporation, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the Transit Corporation.

NOTE I--POST-EMPLOYEE BENEFITS

There are no post-employment benefits provided by the Transit Corporation.

NOTE J--PREPAID INSURANCE

The Transit Corporation purchases insurance coverage through the Michigan Transit Pool Association (MPTA). The Transit Corporation's required retention has been increased to \$25,000 per occurrence in recent years. To mitigate risks and provide premium stabilization, the Transit Corporation has deposited an additional amount of \$125,069 with the pool, which is recorded as prepaid insurance as of September 30, 2006.

CLARE COUNTY TRANSIT CORPORATION
SCHEDULE OF OPERATING REVENUES
For the Year Ended September 30, 2006

SCHEDULE 1

Operating Revenues

| | |
|-----------------------------|------------|
| Demand - Response (Farebox) | \$ 328,520 |
| Freight Tariffs | <u>238</u> |

| | |
|---------------------------------|---------------------------------|
| Total Operating Revenues | <u><u>\$ 328,758</u></u> |
|---------------------------------|---------------------------------|

CLARE COUNTY TRANSIT CORPORATION
SCHEDULE OF OPERATING EXPENSES
For the Year Ended September 30, 2006

SCHEDULE 2

| | <u>Operations</u> | <u>Maintenance</u> | <u>General & Admin.</u> | <u>Total System</u> |
|---------------------------------|----------------------------|--------------------------|---------------------------------|----------------------------|
| Labor | | | | |
| Operator's Salaries and Wages | \$ 352,312 | \$ - | \$ - | \$ 352,312 |
| Other Salaries and Wages | - | 62,486 | 76,188 | 138,674 |
| Dispatcher's Salaries and Wages | 90,799 | - | - | 90,799 |
| Fringe Benefits | 145,900 | 30,160 | 8,418 | 184,478 |
| Services | 3,113 | 9,819 | 28,636 | 41,568 |
| Material and Supplies Consumed | | | | |
| Fuel and Lubricants | 153,611 | - | - | 153,611 |
| Tires and Tubes | 9,361 | - | - | 9,361 |
| Other Material and Supplies | - | 47,369 | 8,286 | 55,655 |
| Utilities | 15,288 | 7,366 | 4,720 | 27,374 |
| Casualty and Liability Costs | | | | |
| Liability and Property | | | | |
| Damage Insurance | 67,965 | - | 6,385 | 74,350 |
| Miscellaneous | | | | |
| Taxes and Fees | 443 | - | - | 443 |
| Travel, Meetings and Training | - | 13 | 4,015 | 4,028 |
| Dues and Subscriptions | - | - | 2,259 | 2,259 |
| Depreciation | 285,738 | 6,561 | 48,749 | 341,048 |
| Total Operating Expenses | <u>\$ 1,124,530</u> | <u>\$ 163,774</u> | <u>\$ 187,656</u> | <u>\$ 1,475,960</u> |

CLARE COUNTY TRANSIT CORPORATION
SCHEDULE OF NON-OPERATING REVENUES - LOCAL
For the Year Ended September 30, 2006

SCHEDULE 3A

Local Operating Assistance

| | |
|----------------|------------|
| Property Taxes | \$ 256,847 |
|----------------|------------|

| | |
|---|-----------------------|
| Total Local Operating Assistance | <u>256,847</u> |
|---|-----------------------|

Other Revenues

| | |
|-----------------|--------|
| Interest Income | 31,649 |
|-----------------|--------|

| | |
|---------------|--------------|
| Miscellaneous | <u>7,903</u> |
|---------------|--------------|

| | |
|-----------------------------|----------------------|
| Total Other Revenues | <u>39,552</u> |
|-----------------------------|----------------------|

| | |
|---|---------------------------------|
| Total Non-Operating Revenues - Local | <u><u>\$ 296,399</u></u> |
|---|---------------------------------|

**CLARE COUNTY TRANSIT CORPORATION
SCHEDULE OF NON-OPERATING REVENUES -
STATE AND FEDERAL
For the Year Ended September 30, 2006**

SCHEDULE 3B

State of Michigan Operating Grants

State Operating Assistance (Act 51)
FYE September 30, 2006

448,324

Total State of Michigan Operating Grants

448,324

Federal Operating Grants

US DOT Operating Grant--Section 5311
Contract 2002-0029
Rural Transit Assistance Program

171,314

2,295

Total Federal Operating Grants

173,609

State and Federal Grants - Prior Year Adjustments

46,103

Total Non-Operating Revenue - State and Federal

\$ 668,036

CLARE COUNTY TRANSIT CORPORATION
SCHEDULE OF CAPITAL GRANTS - STATE AND FEDERAL
For the Year Ended September 30, 2006

SCHEDULE 3C

| State and Federal Capital Grants | Asset Purchased Or Constructed | Federal Share | State Share | Total |
|---|---|--------------------------|------------------------|------------------|
| State Grant Number 2002-0029 | Boiler | \$ 12,000 | \$ 3,000 | \$ 15,000 |
| State Grant Number 2002-0029 | Boiler | 6,985 | 1,746 | 8,731 |
| State Grant Number 2002-0029 | Zone Value | 1,008 | 252 | 1,260 |
| State Grant Number 2002-0029 | Antenna | 17 | 4 | 21 |
| State Grant Number 2002-0029 | Motion Detector | 856 | 214 | 1,070 |
| State Grant Number 2002-0029 | Computer Hardware | 866 | 217 | 1,083 |
| Total Capital Grants - State and Federal | | \$ 21,732 | \$ 5,433 | \$ 27,165 |

CLARE COUNTY TRANSIT CORPORATION
SCHEDULE OF NET ELIGIBLE COSTS COMPUTATIONS
For the Year Ended September 30, 2006

SCHEDULE 4

| | Federal Section 5311 | State Operating Assistance |
|---|---------------------------------|---|
| Operating Expenses | | |
| Labor | \$ 581,785 | \$ 581,785 |
| Fringe benefits | 184,478 | 184,478 |
| Services | 41,568 | 41,568 |
| Materials and supplies | 218,627 | 218,627 |
| Utilities | 27,374 | 27,374 |
| Casualty and liability insurance | 74,350 | 74,350 |
| Miscellaneous | 6,730 | 6,730 |
| Depreciation | 341,048 | 341,048 |
| Total Operating Expenses | 1,475,960 | 1,475,960 |
| Less Ineligible Expenses | | |
| Depreciation | 305,124 | 305,124 |
| Rural Transit Assistance Program | 2,295 | 2,295 |
| Dues and Subscriptions | 83 | 83 |
| Advertising | 69 | 69 |
| Audit | 5,869 | - |
| Total Ineligible Expenses | 313,440 | 307,571 |
| Net Eligible Expenses | 1,162,520 | |
| Less Project Revenue | | |
| Freight Tariffs | 238 | - |
| Total Project Revenue | 238 | - |
| Net Deficit Federal Section 5311 | \$ 1,162,282 | |
| Net Eligible State Operating Expenses | | 1,168,389 |
| Lower of: | | |
| Federal Section 5311 Reimbursement (15 percent) | \$ 174,342 | |
| Contract Amount | \$ 171,314 | |
| Net Eligible State Operating Expenses | | \$ 1,168,389 |
| Maximum State Operating Assistance (60 percent) | | \$ 701,033 |
| 1997 Operating Assistance Floor | | \$ 290,235 |

CLARE COUNTY TRANSIT CORPORATION
MILEAGE DATA - UNAUDITED
For the Year Ended September 30, 2006

SCHEDULE 5

| | Public Transportation Mileage |
|--------------------------------|--|
| Demand - Response | |
| First Quarter | 138,758 |
| Second Quarter | 139,626 |
| Third Quarter | 141,851 |
| Fourth Quarter | 124,932 |
| Total Demand - Response | 545,167 |

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method of recording vehicle mileage.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
Clare County Transit Corporation
4175 North Clare Avenue
Harrison, Michigan 48625

Dear Board Members:

We have audited the general purpose financial statements of Clare County Transit Corporation, as of and for the year ended September 30, 2006, and have issued our report thereon dated October 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

As part of obtaining reasonable assurance about whether Clare County Transit Corporation's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Accounting Standards*.

In planning and performing our audit, we considered Clare County Transit Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management and Federal awarding agencies and pass through entities and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Burnside & Lang, P.C.

Midland, Michigan
October 27, 2006

October 27, 2006

Members of the Board of Directors
Clare County Transit Corporation
Clare County, Michigan

Dear Board Members:

In planning and performing our audit of the financial statements of the Clare County Transit Corporation (the "Transit"), for the year ended September 30, 2006 we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Transit's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that we believe to be material weaknesses.

OTHER MATTERS

Board Oversight

During the August 16th, 2006 board meeting a recommendation was made and approved to increase the Transit's current certificate of deposit investments held by the County of Clare an additional \$100,000. Our review and audit of the investment accounts held by the County indicated that this transaction did not occur. Our returned bank confirmations also indicated that as of September 30th, 2006 no increase was recorded for the above approved recommendation.

Although all cash and investment balances are correctly maintained within the general ledger, we recommend that a procedure be implemented to timely monitor the County Treasurer's actions as they relate to the Transit Authorities investment choices and approvals. This recommendation will enhance the efforts of the Director Mr. Tom Pirstill who timely and adequately reviews the current investment rates in order to maximize investment earnings.

Conclusion

These conditions were considered in determining the nature, timing, and extent of the audit tests applied on our audit of the September 30, 2006, financial statements, and this report does not affect our report on those financial statements dated October 27, 2006. We have not considered internal control since the date of our report.

This report is intended for the information of the members of the audit committee, management and the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Burnside & Lang, P.C.

BURNSIDE & LANG, P.C.